

STATE BOARD OF ACCOUNTS
302 West Washington Street
Room E418
INDIANAPOLIS, INDIANA 46204-2769

FINANCIAL STATEMENTS REVIEW REPORT

OF

OLIVE TOWNSHIP

ELKHART COUNTY, INDIANA

January 1, 2016 to December 31, 2018



FILED
05/07/2020

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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Trustee	Linda Hartzell	01-01-16 to 12-31-20
Chairman of the Township Board	Rick Vandergrift	01-01-16 to 12-31-20



INDEPENDENT ACCOUNTANT'S REVIEW REPORT

TO: THE OFFICIALS OF OLIVE TOWNSHIP, ELKHART COUNTY, INDIANA

We have reviewed the accompanying financial statements of Olive Township (Township), for the period of January 1, 2016 to December 31, 2018. A review includes primarily applying analytical procedures to management's financial data and making inquiries of the Township's management. A review is substantially less in scope than an audit, the objective of which is the expression of an opinion regarding the financial statements as a whole. Accordingly, we do not express such an opinion.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with a regulatory basis of accounting that demonstrates compliance with the reporting requirements established by the Indiana State Board of Accounts as allowed by state statute (IC 5-11-1-6); which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. This includes determining that the basis of accounting the Township uses is an acceptable basis for the preparation of the financial statements in the circumstances. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the financial statements that are free from material misstatements whether due to fraud or error.

Accountant's Responsibility

Our responsibility is to conduct the review engagement in accordance with *Statements on Standards for Accounting and Review Services* promulgated by the Accounting and Review Services Committee of the AICPA. Those standards require us to perform procedures to obtain limited assurance as a basis for reporting whether we are aware of any material modifications that should be made to the financial statements for them to be in accordance with the prescribed basis of accounting described in Note 1. We believe that the results of our procedures provide a reasonable basis for our conclusion.


INDEPENDENT ACCOUNTANT'S REVIEW REPORT
(Continued)

Accountant's Conclusion

Based on our review, we are not aware of any material modifications that should be made to the accompanying financial statements in order for them to be in accordance with the prescribed basis of accounting described in Note 1.

Basis of Accounting

We draw attention to Note 1 of the financial statements, which describes the basis of accounting. The financial statements are prepared in accordance with the prescribed basis of accounting that demonstrates compliance with the reporting requirements established by the Indiana State Board of Accounts as allowed by state statute (IC 5-11-1-6), which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Our conclusion is not modified with respect to this matter.


Paul D. Joyce, CPA
State Examiner

May 4, 2020

FINANCIAL STATEMENTS AND ACCOMPANYING NOTES

The financial statements and accompanying notes were approved by management of the Township. The financial statements and notes are presented as intended by the Township.

OLIVE TOWNSHIP, ELKHART COUNTY
 STATEMENT OF RECEIPTS, DISBURSEMENTS,
 AND CASH AND INVESTMENT BALANCES -
 REGULATORY BASIS
 For the Years Ended December 31, 2016 and 2017

Fund	Cash and Investments 01-01-16	Receipts	Disbursements	Cash and Investments 12-31-16	Receipts	Disbursements	Cash and Investments 12-31-17
Township	\$ 30,957	\$ 60,081	\$ 42,972	\$ 48,066	\$ 38,052	\$ 32,396	\$ 53,722
Township Assistance	15,805	5,255	6,875	14,185	4,443	4,433	14,195
FireFighting	4,070	31,490	42,000	(6,440)	33,088	42,000	(15,352)
Rainy Day	11,875	11,770	-	23,645	-	-	23,645
Levy Excess	207	-	207	-	-	-	-
EMS	7,672	38,172	35,000	10,844	40,720	35,000	16,564
Totals	<u>\$ 70,586</u>	<u>\$ 146,768</u>	<u>\$ 127,054</u>	<u>\$ 90,300</u>	<u>\$ 116,303</u>	<u>\$ 113,829</u>	<u>\$ 92,774</u>

The notes to the financial statements are an integral part of this statement.

OLIVE TOWNSHIP, ELKHART COUNTY
 STATEMENT OF RECEIPTS, DISBURSEMENTS,
 AND CASH AND INVESTMENT BALANCES -
 REGULATORY BASIS
 For the Year Ended December 31, 2018

Fund	Cash and Investments 01-01-18	Receipts	Disbursements	Cash and Investments 12-31-18
Township	\$ 53,722	\$ 50,904	\$ 33,397	\$ 71,229
Township Assistance	14,195	5,589	4,835	14,949
FireFighting	(15,352)	65,622	50,000	270
Rainy Day	23,645	-	17,000	6,645
EMS	16,564	47,074	66,232	(2,594)
Totals	<u>\$ 92,774</u>	<u>\$ 169,189</u>	<u>\$ 171,464</u>	<u>\$ 90,499</u>

The notes to the financial statements are an integral part of this statement.

OLIVE TOWNSHIP, ELKHART COUNTY
NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies

A. Reporting Entity

The Township was established under the laws of the State of Indiana. The Township operates under a township trustee/township board form of government and provides some or all of the following services: public safety (fire), health and social services (township assistance), culture and recreation (parks and/or community centers), and general administrative services (weed and dog control).

The accompanying financial statements present the financial information for the Township.

B. Basis of Accounting

The financial statements are reported on a regulatory basis of accounting prescribed by the Indiana State Board of Accounts in accordance with state statute (IC 5-11-1-6), which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. The basis of accounting involves the reporting of only cash and investments and the changes therein resulting from cash inflows (receipts) and cash outflows (disbursements) reported in the period in which they occurred.

The regulatory basis of accounting differs from accounting principles generally accepted in the United States of America, in that receipts are recognized when received in cash, rather than when earned, and disbursements are recognized when paid, rather than when a liability is incurred.

C. Cash and Investments

Investments are stated at cost. Any changes in fair value of the investments are reported as receipts in the year of the sale of the investment.

D. Receipts

Receipts are presented in the aggregate on the face of the financial statements. The aggregate receipts include the following sources:

Taxes. Amounts received from one or more of the following: property tax, certified shares (local option tax), property tax replacement credit (local option tax), county option income tax, wheel tax, innkeeper's tax, food and beverage tax, county economic development income tax, boat and trailer excise tax, county adjusted gross income tax, and other taxes that are set by the Township.

Intergovernmental receipts. Amounts received from other governments in the form of operating grants, entitlements, or payments in lieu of taxes. Examples of intergovernmental receipts include, but are not limited to, the following: federal grants, state grants, cigarette tax distributions received from the state, motor vehicle highway distributions received from the state, local road and street distributions received from the state, financial institution tax received from the state, auto excise surtax received from the state, commercial vehicle excise tax received from the state, major moves distributions received from the state, and riverboat receipts received from the county.

OLIVE TOWNSHIP, ELKHART COUNTY
NOTES TO FINANCIAL STATEMENTS
(Continued)

Other receipts. Amounts received from various sources, including, but not limited to, the following: net proceeds from borrowings; interfund loan activity; transfers authorized by statute, ordinance, resolution, or court order; internal service receipts; and fiduciary receipts.

E. Disbursements

Disbursements are presented in the aggregate on the face of the financial statements. The aggregate disbursements include the following uses:

Personal services. Amounts disbursed for salaries, wages, and related employee benefits provided for all persons employed. In those units where sick leave, vacation leave, overtime compensation, and other such benefits are appropriated separately, such payments would also be included.

Supplies. Amounts disbursed for articles and commodities that are entirely consumed and materially altered when used and/or show rapid depreciation after use for a short period of time. Examples of supplies include, but are not limited to, the following: office supplies, operating supplies, and repair and maintenance supplies.

Other services and charges. Amounts disbursed for services including, but not limited to, the following: professional services, communication and transportation, printing and advertising, insurance, utility services, repairs and maintenance, and rental charges.

Other disbursements. Amounts disbursed for various other purposes including, but not limited to, the following: interfund loan payments; loans made to other funds; internal service disbursements; and transfers out that are authorized by statute, ordinance, resolution, or court order.

F. Interfund Transfers

The Township may, from time to time, make transfers from one fund to another. These transfers, if any, are included as a part of the receipts and disbursements of the affected funds and as a part of total receipts and disbursements. The transfers are used for cash flow purposes as provided by various statutory provisions.

G. Fund Accounting

Separate funds are established, maintained, and reported by the Township. Each fund is used to account for amounts received from and used for specific sources and uses as determined by various regulations. Restrictions on some funds are set by statute while other funds are internally restricted by the Township. The amounts accounted for in a specific fund may only be available for use for certain, legally-restricted purposes. Additionally, some funds are used to account for assets held by the Township in a trustee capacity as an agent of individuals, private organizations, other funds, or other governmental units and, therefore, the funds cannot be used for any expenditures of the unit itself.

OLIVE TOWNSHIP, ELKHART COUNTY
NOTES TO FINANCIAL STATEMENTS
(Continued)

Note 2. Budgets

The operating budget is initially prepared and approved at the local level. The fiscal officer of the Township submits a proposed operating budget to the governing board for the following calendar year. The budget is advertised as required by law. Prior to adopting the budget, the governing board conducts public hearings and obtains taxpayer comments. Prior to November 1, the governing board approves the budget for the next year. The budget for funds for which property taxes are levied or highway use taxes are received is subject to final approval by the Indiana Department of Local Government Finance.

Note 3. Property Taxes

Property taxes levied are collected by the County Treasurer and are scheduled to be distributed to the Township in June and December; however, situations can arise which would delay the distributions. State statute (IC 6-1.1-17-16) requires the Indiana Department of Local Government Finance to establish property tax rates and levies by December 31 of the year preceding the budget year or January 15 of the budget year if the Township is issuing debt after December 1 or intends on filing a shortfall appeal. These rates were based upon the assessed valuations adjusted for various tax credits from the preceding year's lien date of January 1. Taxable property is assessed at 100 percent of the true tax value (determined in accordance with rules and regulations adopted by the Indiana Department of Local Government Finance). Taxes may be paid in two equal installments which normally become delinquent if not paid by May 10 and November 10, respectively.

Note 4. Deposits and Investments

Deposits, made in accordance with state statute (IC 5-13), with financial institutions in the State of Indiana, at year end, should be entirely insured by the Federal Depository Insurance Corporation or by the Indiana Public Deposit Insurance Fund. This includes any deposit accounts issued or offered by a qualifying financial institution.

State statutes authorize the Township to invest in securities including, but not limited to, the following: federal government securities, repurchase agreements, and certain money market mutual funds. Certain other statutory restrictions apply to all investments made by local governmental units.

Note 5. Risk Management

The Township may be exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; job-related illnesses or injuries to employees; medical benefits to employees, retirees, and dependents; and natural disasters.

These risks can be mitigated through the purchase of insurance, establishment of a self-insurance fund, and/or participation in a risk pool. The purchase of insurance transfers the risk to an independent third-party. The establishment of a self-insurance fund allows the Township to set aside money for claim settlements. The self-insurance fund would be included in the financial statements. The purpose of participation in a risk pool is to provide a medium for the funding and administration of the risks.

OLIVE TOWNSHIP, ELKHART COUNTY
NOTES TO FINANCIAL STATEMENTS
(Continued)

Note 6. Cash Balance Deficits

The financial statements contain some funds with deficits in cash. This is a result of disbursements exceeding receipts due to funds not being transferred.

Note 7. Subsequent Event

The Township purchased accounting software in 2019, for \$700.

OLIVE TOWNSHIP, ELKHART COUNTY
REVIEW RESULTS AND COMMENTS

CONDITION OF RECORDS

A similar comment appeared in prior Report B47226.

Condition and Context

The Annual Financial Report filed on the Indiana Gateway for Government Units financial reporting system for 2016, 2017, and 2018, did not match the Township records due to the following deficiencies noted:

1. The November 2014 and the December 2016 County Adjusted Gross Income Tax (CAGIT) distribution was not recorded in the ledger. Additionally, monthly interest earned on the money market account was not always posted to the ledger for 2016, or prior. This resulted in a \$4,655 understatement of receipts on the 2016 financial statement.
2. A \$66,000 receipt was erroneously reported in the 2017 financial statement, which was the ending balance for the money market account that was already included in the reported beginning cash and investment balance of the Township fund. This resulted in a \$66,000 overstatement of receipts on the 2017 financial statement.
3. The Township fund's reported 2018 beginning cash and investments balances did not agree to the ending cash and investment balances as of December 31, 2017.
4. Receipts for interest earned were not posted to the ledger or reported in the financial statement throughout 2018. This resulted in a \$152 understatement of receipts on the 2018 financial statement.
5. A \$5,000 transfer out of a fund was erroneously posted and reported twice. This resulted in a \$5,000 overstatement of disbursements on the 2018 financial statement.
6. The December 31, 2018 ending cash and investment balances of the Township and Rainy Day funds did not agree to the beginning cash and investment balances entered into the new accounting software for January 1, 2019. This resulted in the understatement of the Township fund ending cash and investment balance as well as the overstatement of the Rainy Day fund ending cash and investment balances by \$10,000.
7. Depository reconciliations of the fund balances to the bank account balances were conducted; however, the reconciliations contained errors and did not balance due to the items noted above. As of December 31, 2016, 2017, and 2018, the adjusted bank account balances exceeded the ledger balance by \$4,576, \$4,675, and \$9,808, respectively. The January 1, 2019 cash and investment balances entered into the new accounting software were adjusted to include the items noted above, but were not being posted to the manual ledgers or properly reported in the financial statements.

Additional review time was spent in order to verify the financial statement to the Township's ledger and bank statements.

Adjustments were proposed and approved by the Trustee.

OLIVE TOWNSHIP, ELKHART COUNTY
REVIEW RESULTS AND COMMENTS
(Continued)

Criteria

Receipts shall be issued and recorded at the time of the transaction. (Accounting and Uniform Compliance Guidelines Manual for Townships, Chapter 1)

At all times, the manual and/or computerized records, subsidiary ledgers, control ledger, and reconciled bank balance must agree. If the reconciled bank balance is less than the subsidiary or control ledgers, the amount needed to balance may be the personal obligation of the responsible official or employee. (Accounting and Uniform Compliance Guidelines Manual for Townships, Chapter 1)

Indiana Code 5-11-1-4(a) states:

"The state examiner shall require from every municipality and every state or local governmental unit, entity, or instrumentality financial reports covering the full period of each fiscal year. These reports shall be prepared, verified, and filed with the state examiner not later than sixty (60) days after the close of each fiscal year. The reports must be in the form and content prescribed by the state examiner and filed electronically in the manner prescribed under [IC 5-14-3.8-7](#)."

OVERDRAWN CASH BALANCES

Condition and Context

The financial statements presented for review included the FireFighting fund with an overdrawn cash balance of \$6,440 and \$15,352 at December 31, 2016 and 2017, respectively.

The financial statements presented for review included the EMS fund with an overdrawn cash balance of \$2,594 at December 31, 2018.

Criteria

The cash balance of any fund may not be reduced below zero. Routinely overdrawn funds could be an indicator of serious financial problems which should be investigated by the unit. (Accounting and Uniform Compliance Guidelines Manual for Townships, Chapter 1)

TRANSFER OF FUNDS

Condition and Context

The Township made fund to fund transfers totaling \$11,770 and \$35,000, in 2016 and 2018, respectively, without Township Board approval.

OLIVE TOWNSHIP, ELKHART COUNTY
REVIEW RESULTS AND COMMENTS
(Continued)

Criteria

Pursuant to IC 36-1-8-5.1, a Township can establish a rainy day fund (RDF) through the adoption of a resolution. The resolution must state the following: (1) the purposes of the RDF and (2) the sources of funding for the RDF. The sources of funding can include dormant funds (IC 36-1-8-5), CAGIT (IC 6-3.5-1.1-21.1), COIT (IC 6-3.5-6-17.3), CEDIT (IC 6-3.5-7-17.3), or any other funding source specified in the resolution and not otherwise prohibited by law.

In addition, a Township can transfer an amount from a fund as long as it is authorized by the resolution, does not exceed 10% of the total annual budget for that fiscal year and is not from a debt service fund.

Our position is that a unit can transfer money from an appropriated fund to the RDF as long as the purpose of the levy has been fulfilled (and the Township Board has stated as such) and the transfer does not exceed 10% of the total annual budget. Also, any fund that has been declared dormant (by the Township Board) under IC 36-1-8-5 can be transferred to the RDF. Please note that Debt Service funds are explicitly prohibited from being transferred to the RDF. There have been changes to the fire fund statute that now allows a Township to transfer money from the fire fund. (Township Bulletin and Uniform Compliance Guidelines, September 2018)

OLIVE TOWNSHIP, ELKHART COUNTY
EXIT CONFERENCE

The contents of this report were discussed on May 4, 2020, with Linda Hartzell, Trustee, and Rick Vandergrift, Chairman of the Township Board.